

**CITY OF AUDUBON**  
**INDEPENDENT AUDITORS' REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2010**

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## City of Audubon

### Officials

<u>Name</u>	<u>Title</u> <b>(Before January 2010)</b>	<u>Term Expires</u>
Clark Kauffman	Mayor	January 2012
Bruce Christensen	Council Member	January 2010
Andy Griffith	Council Member	January 2010
Delyte Borkowski	Council Member	January 2010
Kathleen Cramer	Council Member	January 2012
Robert Jacobsen	Council Member	January 2012

<u>Name</u>	<u>Title</u> <b>(After January 2010)</b>	<u>Term Expires</u>
Clark Kauffman	Mayor	January 2012
Robert Jacobsen	Council Member	January 2012
John Whetzal	Council Member	January 2012
Delyte Borkowski	Council Member	January 2014
Andy Griffith	Council Member	January 2014
Teresa Murray	Council Member	January 2014

Lora Hansen	City Clerk	Indefinite
Lance Levis	Attorney	Indefinite

**City of Audubon**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

November 8, 2010

Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Audubon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Audubon as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Independent Auditors' Report  
City of Audubon

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2010 on our consideration of the City of Audubon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 10 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Audubon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Schroeder & Associates, P.C.*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Audubon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased \$82,220 from fiscal year 2009 to fiscal year 2010. Property tax collections increased \$106,297. Tax increment financing collections increased \$96,418. Intergovernmental receipts decreased \$114,832.
- Disbursements decreased \$530,793 in fiscal year 2010 from fiscal year 2009. Capital projects decreased \$354,270 and public works increased \$171,805.
- The City's total cash basis net assets increased \$16,594, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased \$65,511 and the assets of the business type activities decreased by \$48,917.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principals. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### **GOVERNMENT-WIDE FINANCIAL STATEMENT**

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### **FUND FINANCIAL STATEMENTS**

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: General Fund, Special Revenue Funds, (such as Road Use Tax and Local Option Sales Tax), Debt Service Fund and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The following table shows the changes in cash balances for governmental activities.

RECEIPTS	FY 2010	FY 2009
Property taxes	697584	591287
Tax increment financing	128054	31636
Other City tax	213365	219178
Licenses & Permits	793	466
Use of Money & Property	27359	38248
Intergovernmental	447545	562377
Charges for Services	229816	209538
Special Assessments	6007	4260
Miscellaneous	95015	106178
Other Financing Sources	<u>51000</u>	<u>51150</u>
TOTALS	<u>\$1896538</u>	<u>\$1814318</u>
DISBURSEMENTS		
Public safety	340427	345091
Public works	859937	1031742
Culture & recreation	240922	260750
Community & economic development	43488	33881
General government	83128	87854
Debt service	255225	240332
Capital projects	<u>7656</u>	<u>361926</u>
TOTALS	<u>\$1830783</u>	<u>\$2361576</u>
Net change in cash balances	65755	(547258)
Cash balance beginning of year	<u>871455</u>	<u>1418713</u>
Cash balance end of year	<u>\$937210</u>	<u>\$871455</u>

The City's total receipts for governmental activities increased \$82,220. The total cost of all programs and services decreased \$530,793. Both decreases can be attributed to the completion of the Broadway Bridge project which inflated last year's numbers.

Property tax collections increased by \$106,297 from FY09 to FY10.

The following table shows the changes in cash balances for business-type activities.

RECEIPTS	FY 2010	FY 2009
Charges for services	551581	556322
Use of money & property	1960	3054
Miscellaneous	<u>35695</u>	<u>32337</u>
TOTALS	<u>\$589236</u>	<u>\$591713</u>
DISBURSEMENTS		
Water	215555	188691
Sewer	372558	368717
Transfers out	<u>50000</u>	<u>50000</u>
TOTALS	<u>\$638113</u>	<u>\$607408</u>
Net change in cash balance	(48877)	(15695)
Case balance beginning of year	<u>213993</u>	<u>229688</u>
Cash balance end of year	<u>\$165116</u>	<u>\$213993</u>

The business-type activities receipts fell by \$2477. Expenditures increased by \$30,705.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$937,210, an increase of \$65,755 from last year. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$49376 from the prior year to \$390261 due to lower costs in Public Safety and Recreation.
- The Road Use Tax fund cash balance decreased by \$54635 to \$(1831) during the fiscal year because of high costs attributed to a harsh winter.
- The Employee Benefits Fund decreased \$68524 to \$(51516) due to a higher than normal amount of health claims.
- The Urban Renewal Tax Fund increased \$41589 to \$(96920) due to tax increment financing collections.
- The Special Revenue - Cemetery Trust (Arlington Heights Cemetery) increased \$2910 to \$40344.
- The Local Option Sales Tax Fund cash balance increased \$42711 to \$363488. The City intends to use this fund for future street construction projects.
- The Debt Service Fund increased \$37754 to \$8222 due to property tax receipts.
- The Capital Projects Fund increased \$8364 to \$186162 due to the nearly completed bridge project.
- The Cemetery Trust Funds (Maple Grove Cemetery) increased by \$6210 to \$99000.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$19724 and the Sewer Fund decreased by \$29153.

## BUDGETARY HIGHLIGHTS

The City amended its budget once during the year, in May, 2010. The expenditure budget was increased by \$302,825 and the receipt budget was increased by \$163,750. The expenditure increase can be attributed to an increase in sanitation costs, snow/ice removal expenses, and higher than budgeted bridge project costs. The revenue increase was caused by the payment of grant funds awarded for a bridge project.

## DEBT ADMINISTRATION

On June 30, 2010, the City had \$3,605,000 in bonds and other long-term debt, compared to \$3,890,000 last year, as shown below.

	6-30-10	6-30-09
General obligation bonds & notes	1485000	1590000
TIF revenue bonds	270000	335000
Sewer revenue notes	<u>1850000</u>	<u>1965000</u>
TOTALS	\$3,605,000	\$3,890,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed valuation of taxable property. The City's outstanding general obligation debt (general obligation plus TIF) of \$1,755,000 is well below the constitutional debt limit of \$3,559,967.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's officials consider local needs and wants, and the overall economy when setting the budget and tax rates for 2011.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Lora Hansen, City Clerk, 410 North Park Place, Audubon, Iowa 50025.

**City of Audubon**  
**Basic Financial Statements**

City of Audubon  
Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2010

			Program
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 340,564	2,824	25,277
Public works	859,993	200,946	387,084
Culture and recreation	240,922	51,722	82,640
Community and economic development	43,488	-	3,243
General government	83,179	793	22,596
Debt service	255,225	-	-
Capital projects	7,656	-	-
Total governmental activities	<u>1,831,027</u>	<u>256,285</u>	<u>520,840</u>
Business type activities:			
Water	215,567	214,709	-
Sewer	372,586	336,872	-
Total business type activities	<u>588,153</u>	<u>551,581</u>	<u>-</u>
Total	<u>\$ 2,419,180</u>	<u>807,866</u>	<u>520,840</u>

**General Receipts:**

Property tax levied for:  
    General purposes  
    Employee benefits  
    Debt service  
Tax increment financing  
Local option sales tax  
Grants and contributions not restricted  
to specific purpose  
Unrestricted interest on investments  
Miscellaneous  
Sale of assets  
Transfers  
    Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

Nonexpendable:

    Cemetery perpetual care

Expendable:

    Cemetery trust

    Street construction and repair

    Capital projects

    Debt services

Unrestricted

    Total cash basis net assets

See notes to financial statements.

Receipts Capital Grants, Contributions and Restricted Interest	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
-	(312,463)	-	(312,463)
-	(271,963)	-	(271,963)
-	(106,560)	-	(106,560)
-	(40,245)	-	(40,245)
-	(59,790)	-	(59,790)
-	(255,225)	-	(255,225)
16,020	8,364	-	8,364
16,020	(1,037,882)	-	(1,037,882)
-	-	(858)	(858)
-	-	(35,714)	(35,714)
-	-	(36,572)	(36,572)
16,020	(1,037,882)	(36,572)	(1,074,454)
\$	411,003	-	411,003
	143,656	-	143,656
	215,029	-	215,029
	128,054	-	128,054
	141,261	-	141,261
	4,680	-	4,680
	2,322	1,960	4,282
	6,388	35,695	42,083
	1,000	-	1,000
	50,000	(50,000)	-
	1,103,393	(12,345)	1,091,048
	65,511	(48,917)	16,594
	869,665	223,213	1,092,878
\$	935,176	174,296	1,109,472
\$	99,000	-	99,000
	40,344	-	40,344
	363,488	-	363,488
	186,162	-	186,162
	8,222	55,099	63,321
	237,960	119,197	357,157
\$	935,176	174,296	1,109,472

City of Audubon  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2010

	General	Road Use Tax	Employee Benefits	Special Urban Renewal Tax Increment
<b>Receipts</b>				
Property tax	\$ 360,767	-	134,440	128,054
Tax increment financing collections	-	-	-	-
Other city tax	50,236	-	9,216	-
Licenses and permits	793	-	-	-
Use of money and property	27,359	-	-	-
Intergovernmental	61,159	220,959	-	-
Charges for service	229,816	-	-	-
Special assessments	189	-	-	5,818
Miscellaneous	69,875	-	-	-
Total receipts	<u>800,194</u>	<u>220,959</u>	<u>143,565</u>	<u>133,872</u>
<b>Disbursements</b>				
Operating:				
Public safety	246,841	-	93,586	-
Public works	219,006	275,594	101,360	-
Culture and recreation	238,265	-	2,657	-
Community and economic development	29,155	-	-	14,333
General government	68,551	-	14,577	-
Debt service	-	-	-	77,950
Capital projects	-	-	-	-
Total disbursements	<u>801,818</u>	<u>275,594</u>	<u>212,180</u>	<u>92,283</u>
Excess (deficiency) of receipts over (under) disbursements	(1,624)	(54,635)	(68,524)	41,589
Other financing sources:				
Sale of general fixed assets	1,000	-	-	-
Operating transfers in	50,000	-	-	-
Total other financing sources	<u>51,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	49,376	(54,635)	(68,524)	41,589
Cash balances beginning of year	<u>340,885</u>	<u>52,804</u>	<u>17,008</u>	<u>(138,509)</u>
Cash balances end of year	<u>\$ 390,261</u>	<u>(1,831)</u>	<u>(51,516)</u>	<u>(96,920)</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	390,261	-	-	-
Special revenue funds	-	(1,831)	(51,516)	(96,920)
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 390,261</u>	<u>(1,831)</u>	<u>(51,516)</u>	<u>(96,920)</u>

See notes to financial statement

Revenue				Permanent	
Cemetery Trust	Local Option Sales Tax	Debt Service	Capital Projects	Cemetery Trust	Total
-	-	202,377	-	-	697,584
-	-	-	-	-	128,054
-	141,261	12,652	-	-	213,365
-	-	-	-	-	793
-	-	-	-	-	27,359
-	165,427	-	-	-	447,545
-	-	-	-	-	229,816
-	-	-	-	-	6,007
2,910	-	-	16,020	6,210	95,015
2,910	306,688	215,029	16,020	6,210	1,845,538
-	-	-	-	-	340,427
-	263,977	-	-	-	859,937
-	-	-	-	-	240,922
-	-	-	-	-	43,488
-	-	-	-	-	83,128
-	-	177,275	-	-	255,225
-	-	-	7,656	-	7,656
-	263,977	177,275	7,656	-	1,830,783
2,910	42,711	37,754	8,364	6,210	14,755
-	-	-	-	-	1,000
-	-	-	-	-	50,000
-	-	-	-	-	51,000
2,910	42,711	37,754	8,364	6,210	65,755
37,434	320,777	(29,532)	177,798	92,790	871,455
40,344	363,488	8,222	186,162	99,000	937,210
-	-	8,222	-	-	8,222
-	-	-	-	-	390,261
40,344	363,488	-	-	-	253,565
-	-	-	186,162	-	186,162
-	-	-	-	99,000	99,000
40,344	363,488	8,222	186,162	99,000	937,210

City of Audubon  
 Reconciliation of the Statement of Cash  
 Receipts, Disbursements and Changes in Cash Balances  
 to the Statement of Activities and Net Assets -  
 Governmental Funds  
 As of and for the year ended June 30, 2010

<b>Total governmental funds cash balances</b>	\$	937,210
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*Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

(2,034)

<b>Cash basis net assets of governmental activities</b>	\$	<u>935,176</u>
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<b>Net change in cash balances</b>	\$	65,755
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*Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(244)

<b>Change in cash balance of governmental activities</b>	\$	<u>65,511</u>
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City of Audubon  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2010

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Employee Health
Operating receipts:				
Use of money and property	\$ -	-	-	7
Charges for service	213,779	335,337	549,116	153,966
Special assessments	930	1,535	2,465	-
Total operating receipts	214,709	336,872	551,581	153,973
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	74,143
Public works	-	-	-	30,215
General government	-	-	-	28,055
Business type activities	215,555	198,608	414,163	21,844
Total operating disbursements	215,555	198,608	414,163	154,257
Excess (deficiency) of operating receipts over (under) operating disbursements	(846)	138,264	137,418	(284)
Non-operating receipts:				
Interest on investments	378	1,582	1,960	-
Miscellaneous	30,744	4,951	35,695	-
Debt service	-	(173,950)	(173,950)	-
Total non-operating receipts	31,122	(167,417)	(136,295)	-
Excess (deficiency) of receipts over (under) disbursements	30,276	(29,153)	1,123	(284)
Other financing sources (uses):				
Operating transfers out	(50,000)	-	(50,000)	-
Net change in cash balances	(19,724)	(29,153)	(48,877)	(284)
Cash balances beginning of year	186,752	27,241	213,993	7,430
Cash balances end of year	\$ 167,028	(1,912)	165,116	7,146
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	55,099	55,099	-
Unreserved	167,028	(57,011)	110,017	7,146
	\$ 167,028	(1,912)	165,116	7,146

See notes to financial statements

City of Audubon  
 Reconciliation of the Statement of Cash Receipts, Disbursements  
 and Changes in Cash Balances  
 to the Statement of Activities and Net Assets –  
 Proprietary Funds  
 As of and for the year ended June 30, 2010

**Total enterprise funds cash balances** \$ 165,116

*Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

9,180

**Cash basis net assets of business type activities** \$ 174,296

**Net change in cash balances** \$ (48,877)

*Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

(40)

**Change in cash balance of business type activities** \$ (48,917)

**City of Audubon**

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies**

The City of Audubon is a political subdivision of the State of Iowa located in Audubon County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Audubon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City representatives are members of the following boards and commissions: Audubon County Assessor's Conference Board, Audubon County Emergency Management Commission, Audubon County E911 Board, Audubon County Solid Waste Management Commission and Audubon County Airport Authority.

**B. Basis of Presentation**

**Government-wide Financial Statements** - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund accounts for the tax levy to support City employee benefits.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

The Cemetery Trust is used to report the resources to provide for care of a cemetery.

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for street construction and repairs.

The Debt Service Fund is utilized to account for the payment of principal and interest on the City's general long term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through the Enterprise Funds.

The Permanent Fund – Cemetery Trust is used to report the resources that are legally restricted to the extent that only earnings and not the principal may be used to provide for care of a cemetery.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City, and provided to other departments or agencies on a cost reimbursement basis.

**C. Measurement Focus and Basis of Accounting**

The City of Audubon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies – Continued**

**C. Measurement Focus and Basis of Accounting- Continued**

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

**E. Property Tax Calendar**

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2008, to compute the amounts which became liens on property on July 1, 2009. These taxes were due and payable in two installments on September 30, 2009 and March 31, 2010, at the Audubon County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

**NOTE (2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (2) Cash and Pooled Investments - Continued**

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$1,109,472.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**NOTE (3) Bonds and Notes Payable**

Annual debt service requirements to maturity of general obligation bonds and notes, urban renewal tax increment financing revenue bonds, and revenue notes are as follows:

Year Ended June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Notes		Total	
	Principal		Principal		Principal		Principal	
2011	\$	110,000	\$	65,000	\$	119,000	\$	294,000
2012		115,000		65,000		122,000		302,000
2013		120,000		70,000		125,000		315,000
2014		125,000		70,000		129,000		324,000
2015		135,000		-		133,000		268,000
2016-2020		535,000		-		730,000		1,265,000
2021-2023		345,000		-		492,000		837,000
Total	\$	<u>1,485,000</u>	\$	<u>270,000</u>	\$	<u>1,850,000</u>	\$	<u>3,605,000</u>

  

Year Ended June 30,	Interest		Interest		Interest		Interest	
	Interest		Interest		Interest		Interest	
2011	\$	66,341	\$	10,340	\$	55,500	\$	132,181
2012		61,064		8,000		51,930		120,994
2013		55,675		5,530		48,270		109,475
2014		50,151		2,800		44,520		97,471
2015		44,361		-		40,650		85,011
2016-2020		142,758		-		140,700		283,458
2021-2023		31,276		-		29,820		61,096
Total	\$	<u>451,626</u>	\$	<u>26,670</u>	\$	<u>411,390</u>	\$	<u>889,686</u>

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (3) Bonds and Notes Payable - Continued**

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$620,000 of urban renewal tax increment financing revenue bonds in January 2004 for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$296,670, payable through June 2014. For the current year, principal and interest paid and total TIF receipts were \$77,550 and \$133,872, respectively.

The City has a general obligation debt limit of approximately \$3,560,000 which was not exceeded during the year ended June 30, 2010.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,066,000 in sewer revenue notes issued in September 2002, and \$600,000 in sewer revenue notes issued in December 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the notes were more than 125 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,261,390. For the current year, principal and interest paid and total customer net receipts were \$173,950 and \$138,264, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (3) Bonds and Notes Payable - Continued**

The resolution providing for the issuance of the \$600,000 revenue note includes the additional provision:

- c) Additional monthly transfers of 25% of the amount required to be deposited in the sewer sinking account shall be made to the sewer reserve account until a specific minimum balance has been accumulated. The account is reserved for payment of principal and interest should the sinking account have insufficient money available.

The City's net sewer receipts were insufficient to service operations and debt service requirements.

**NOTE (4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$31,738, \$30,720, and \$29,573, respectively, equal to the required contributions for each year.

**NOTE (5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2010, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 15,143

The liability has been computed based on rates of pay as of June 30, 2010.

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Water	\$ 50,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

**NOTE (7) Commitments**

Cemetery Contracts – The City has contracted for the upkeep of one cemetery through March 2013, for an annual cost of \$8,589, and mowing of another cemetery through March 2013, for an annual cost of \$13,296.

City Mowing Contract – The City has contracted for the upkeep of City grounds through February 2013, for an annual cost of \$8,400.

Water and Wastewater Operation Contract – The City has contracted for operations of the waterworks and wastewater treatment facilities through December 31, 2012 for an approximate annual cost of \$153,432, to be adjusted each April for inflation.

Solid Waste and Recyclables Hauling Contract – The City has contracted for solid waste and recyclable pickup within the City for a monthly cost of \$10,600 through December 2010.

**NOTE (8) Risk Management**

The City of Audubon is exposed to various risks of loss related to torts: theft, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liabilities for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Audubon  
Notes to Financial Statements  
June 30, 2010

**NOTE (9) Deficit Fund Balance**

At June 30, 2010, the City had the following deficit balances:

Special Revenue Funds:	
Road Use Tax	\$ 1,831
Employee Benefits	51,516
Urban Renewal Tax Increment	96,920
Proprietary Fund:	
Sewer	<u>1,912</u>
	<u>\$ 152,179</u>

The deficit will be eliminated with the receipts from property taxes , road use taxes, and tax increment financing collections. The City has increased sewer rates.

**NOTE (10) Self Insurance Program**

The City has established a self insurance medical program which is accounted for in the Insurance Fund (an internal service fund). This program provides employees health benefit coverage up to a maximum of \$30,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participate in the program and make payments to the Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. Claims are not recognized by the City until paid. The unpaid claims liability of \$1,121 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Change in the Fund's claims liability amount is shown below.

Unpaid claims and claims adjustment expenses, beginning of year	\$ 9,845
Incurred claims and claim adjustment expenses	145,533
Payments	<u>154,257</u>
Unpaid claims and claims adjustment expenses, end of year	<u>\$ 1,121</u>

**NOTE (11) Subsequent Events**

In July 2010, the City approved street repairs totaling approximately \$90,000.

### **Required Supplementary Information**

City of Audubon  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts			
Property tax	\$ 697,584	-	-
Tax increment financing collections	128,054	-	-
Other city tax	213,365	-	-
Licenses and permits	793	-	-
Use of money and property	27,359	1,967	7
Intergovernmental	447,545	-	-
Charges for service	229,816	703,082	153,966
Special assessments	6,007	2,465	-
Miscellaneous	95,015	35,695	-
Total receipts	<u>1,845,538</u>	<u>743,209</u>	<u>153,973</u>
Disbursements			
Public safety	340,427	74,143	74,143
Public works	859,937	30,215	30,215
Health and social services	-	-	-
Culture and recreation	240,922	-	-
Community and economic development	43,488	-	-
General government	83,128	28,055	28,055
Debt service	255,225	-	-
Capital projects	7,656	-	-
Business type activities	-	609,957	21,844
Total disbursements	<u>1,830,783</u>	<u>742,370</u>	<u>154,257</u>
Excess (deficiency) of receipts over (under) disbursements	14,755	839	(284)
Other financing sources, net	<u>51,000</u>	<u>(50,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) Disbursements and other financing uses	65,755	(49,161)	(284)
Balances beginning of year	<u>871,455</u>	<u>221,423</u>	<u>7,430</u>
Balances end of year	<u>\$ 937,210</u>	<u>172,262</u>	<u>7,146</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final To Net Variance
	Original	Final	
697,584	854,262	762,376	(64,792)
128,054	-	140,500	(12,446)
213,365	187,114	140,000	73,365
793	5,200	5,200	(4,407)
29,319	42,800	41,900	(12,581)
447,545	222,000	222,000	225,545
778,932	881,700	770,000	8,932
8,472	-	-	8,472
130,710	167,400	442,250	(311,540)
2,434,774	2,360,476	2,524,226	(89,452)
340,427	323,780	441,880	101,453
859,937	809,764	1,006,614	146,677
-	1,000	1,000	1,000
240,922	311,495	256,970	16,048
43,488	79,155	79,155	35,667
83,128	117,950	131,600	48,472
255,225	177,276	255,226	1
7,656	-	10,000	2,344
588,113	688,493	629,293	41,180
2,418,896	2,508,913	2,811,738	392,842
15,878	(148,437)	(287,512)	303,390
1,000	-	-	1,000
16,878	(148,437)	(287,512)	304,390
1,085,448	777,717	1,000,088	85,360
1,102,326	629,280	712,576	389,750

City of Audubon  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$302,825. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amended budgeted amounts.

### **Other Supplementary Information**

City of Audubon  
Schedule of Indebtedness  
Year ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
Equipment	Sept 26, 2007	4.00 - 4.30 %	\$ 350,000
Streetscape	Sept 11, 2008	4.10 - 5.75 %	1,320,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds:	Jan 1, 2004	3.60 - 4.00 %	\$ 620,000
Revenue notes:			
Sewer	Sep 15, 2002	3.00 %	\$ 2,066,000
Sewer	Dec 12, 2003	3.00 %	600,000
Total			

See accompanying independent auditors' report

**Schedule 1**

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
310,000	-	40,000	270,000	12,833	-
<u>1,280,000</u>	<u>-</u>	<u>65,000</u>	<u>1,215,000</u>	<u>58,643</u>	<u>-</u>
<u>1,590,000</u>	<u>-</u>	<u>105,000</u>	<u>1,485,000</u>	<u>71,476</u>	<u>-</u>
<u>335,000</u>	<u>-</u>	<u>65,000</u>	<u>270,000</u>	<u>12,550</u>	<u>-</u>
1,568,000	-	92,000	1,476,000	47,040	-
<u>397,000</u>	<u>-</u>	<u>23,000</u>	<u>374,000</u>	<u>11,910</u>	<u>-</u>
<u>1,965,000</u>	<u>-</u>	<u>115,000</u>	<u>1,850,000</u>	<u>58,950</u>	<u>-</u>

City of Audubon  
Bond and Note Maturities  
June 30, 2010

General Obligation Bonds and Notes						
Year Ending June 30,	Equipment		Streetscape			Total
	Issued Sept 26, 2007		Issued Sept 11, 2008			
	Interest Rate	Amount	Interest Rate	Amount		
2011	4.00 %	\$ 40,000	5.25 %	\$ 70,000	\$	110,000
2012	4.10 %	40,000	5.00 %	75,000		115,000
2013	4.15 %	45,000	4.88 %	75,000		120,000
2014	1.20 %	45,000	4.88 %	80,000		125,000
2015	4.25 %	50,000	4.88 %	85,000		135,000
2016	4.30 %	50,000	4.10 %	90,000		140,000
2017	-	-	4.20 %	95,000		95,000
2018	-	-	4.25 %	95,000		95,000
2019	-	-	4.30 %	100,000		100,000
2020	-	-	4.35 %	105,000		105,000
2021	-	-	4.40 %	110,000		110,000
2022	-	-	4.45 %	115,000		115,000
2023	-	-	4.50 %	120,000		120,000
Total		\$ 270,000		\$ 1,215,000	\$	1,485,000

Year Ending June 30,	Revenue Notes				
	Sewer		Sewer		Total
	Issued Oct. 15, 1999		Issued Feb. 28, 2003		
	Interest Rate	Amount	Interest Rate	Amount	
2011	3.00 %	\$ 24,000	3.00 %	\$ 95,000	
2012	3.00 %	25,000	3.00 %	97,000	
2013	3.00 %	25,000	3.00 %	100,000	
2014	3.00 %	26,000	3.00 %	103,000	
2015	3.00 %	27,000	3.00 %	106,000	
2016	3.00 %	28,000	3.00 %	110,000	
2017	3.00 %	29,000	3.00 %	113,000	
2018	3.00 %	30,000	3.00 %	116,000	
2019	3.00 %	30,000	3.00 %	120,000	
2020	3.00 %	31,000	3.00 %	123,000	
2021	3.00 %	32,000	3.00 %	127,000	
2022	3.00 %	33,000	3.00 %	131,000	
2023	3.00 %	34,000	3.00 %	135,000	
Total		\$ 374,000		\$ 1,476,000	

See accompanying independent auditors' report

**Urban Renewal Tax Increment  
Financing (TIF) Revenue Bonds**

Issued Jan 1, 2004		
Interest Rate		Amount
3.60 %	\$	65,000
3.80 %		65,000
3.90 %		70,000
4.00 %		70,000
-		-
-		-
-		-
-		-
-		-
-		-
-		-
-		-
		<hr/>
\$		270,000

City of Audubon  
Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds  
For the Last Six Years

	2010	2009	2008	2007	2006	2005
<b>Receipts</b>						
Property tax	\$ 697,584	591,287	502,392	450,807	567,388	533,115
Tax increment financing collections	128,054	31,636	84,848	144,011	33,901	150,445
Other city tax	213,365	219,178	204,702	175,273	180,157	224,224
Licenses and permits	793	466	508	1,583	3,307	2,203
Use of money and property	27,359	38,248	84,618	58,501	47,753	20,597
Intergovernmental	447,545	562,377	600,094	254,803	247,524	265,004
Charges for service	229,816	209,538	196,688	202,272	198,176	196,781
Special assessments	6,007	4,260	20,706	31,377	12,686	11,118
Miscellaneous	95,015	106,178	120,924	165,709	93,564	247,728
<b>Total</b>	<b>\$ 1,845,538</b>	<b>1,763,168</b>	<b>1,815,480</b>	<b>1,484,336</b>	<b>1,384,456</b>	<b>1,651,215</b>
<b>Disbursements</b>						
Operating:						
Public safety	\$ 340,427	345,091	487,808	350,862	296,651	343,759
Public works	859,937	1,031,742	913,310	606,413	553,816	579,262
Health and social services	-	-	1,000	1,000	1,000	1,000
Culture and recreation	240,922	260,750	265,913	264,595	326,173	289,370
Community and economic development	43,488	33,881	166,893	159,517	41,794	32,098
General government	83,128	87,854	89,177	137,370	86,480	108,560
Debt service	255,225	240,332	114,576	23,635	204,845	207,450
Capital projects	7,656	361,926	1,107,220	-	-	65,281
<b>Total</b>	<b>\$ 1,830,783</b>	<b>2,361,576</b>	<b>3,145,897</b>	<b>1,543,392</b>	<b>1,510,759</b>	<b>1,626,780</b>

See accompanying independent auditors' report

**City of Audubon**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

November 8, 2010

Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 8, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Audubon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Audubon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Audubon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

Continued...

City of Audubon  
Independent Auditors' Report on  
Internal Control and Compliance

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Audubon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Audubon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Audubon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Audubon's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Audubon and other parties to whom the City of Audubon may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Audubon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schoer & Associates, P.C.*

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2010

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

I-A-10 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The same person does the utility billing, cash receipts listing, bank deposits and posting of cash receipts to utility accounts. Controls over cash receipts at the swimming pool are minimal.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this. Utility customers pay mostly by check and will question if a payment is not correctly posted to their account.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2010

**Part II: Other Findings Related to Statutory Reporting:**

II-A-10     Certified Budget

Disbursements during the year ended June 30, 2010, did not exceed the amended budgeted amounts.

II-B-10     Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10     Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-10     Business Transactions

No business transactions were noted between the City and City officials or employees.

II-E-10     Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-10     Council Minutes

Comment - No transactions were found that we believe should have been approved in the Council minutes but were not. However, we noted the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should publish annual individual salaries as required.

Response - We will publish salaries as required.

Conclusion - Response accepted.

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2010

**Part II: Other Findings Related to Statutory Reporting Continued:**

II-G-10     Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-10     Revenue Note

Comment – The City has a deficit fund balance in the Sewer Fund which violates the provision of the sewer revenue bond resolution.

Recommendation – The City needs to establish rates which will generate user fees sufficient to service the revenue debt and the operations of the City's sanitary sewer system.

Response – We raised sewer rates in March 2010.

Conclusion – Response accepted.

II-I-10     Financial Condition

Comment – At June 30, 2010, the City has the following deficit fund balances:

Special Revenue Funds:	
Road Use Tax	\$ 1,831
Employee Benefits	51,516
Urban Renewal Tax Increment	96,920
Proprietary Fund:	
Sewer	<u>1,912</u>
	\$ <u>152,179</u>

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits.

Response – We will eliminate the deficits with tax increment financing collections, property tax receipts and road use tax receipts. We have raised sewer rates in March 2010.

Conclusion – Response accepted.